

INTRODUCTION

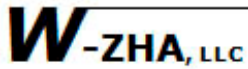
STUDY PURPOSE

This office and hotel market analysis was conducted to inform the Downtown Wichita Master Plan process. The Downtown Master Plan Area is depicted in Figure I-1. The market analysis summarizes office and hotel development potential over the next 10 years and the conditions necessary to capture the market opportunities.

FIGURE I-1
DOWNTOWN MASTER PLAN AREA



Source: Goody Clancy Associates



PROCESS

Three sources of information were applied in the market analyses. The first source was W-ZHA fieldwork where existing supply and competitive market area evaluations took place. Data from third party sources was used to understand existing conditions and future opportunities. The major sources of this information were as follows:

- Employment Trends and Projections by Industry: Moody's economy.com and the Bureau of Economic Analysis
- Office Supply Data: Grubb & Ellis/ Martens Commercial Group; JP Weigand & Sons, Inc.
- Hotel Performance Data: Go Wichita!; Smith Travel Research

In addition to analyzing market data, W-ZHA conducted numerous interviews with real estate brokers, property managers, land owners, and developers. These person-to-person and telephone interviews provided valuable insights into the nuances of the office and hotel markets.

OFFICE MARKET

MARKET CONTEXT

Notwithstanding the current national economic downturn, Sedgwick County maintains a positive economic outlook. As shown in the following table, Sedgwick County has grown at an annualized rate of 1.2 percent per year since 1990. This growth has been driven primarily by professional service sectors, which have more than offset declines in manufacturing sectors.

These trends are expected to continue. As shown, manufacturing is expected to experience continuing employment declines, while growth in service sectors such as health care, leisure and hospitality, and business services will outpace overall employment growth.

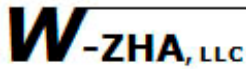


TABLE II-1

SEDGWICK COUNTY EMPLOYMENT TRENDS AND FORECASTS: 1990-2020

	1990	2000	2008	2010	2020	Avg. Ann Growth Rates	
						90-'08	08-'20
Total Nonfarm	217.09	257.50	268.17	257.82	283.87	1.2%	0.5%
Natural Resources & Mining	1.60	1.11	1.25	1.08	0.98	-1.3%	-2.0%
Construction	8.94	12.59	13.06	12.69	13.03	2.1%	0.0%
Manufacturing	59.38	66.74	61.11	50.26	52.81	0.2%	-1.2%
Textile Mills	11.55	13.76	0.05	0.07	0.06	-25.7%	1.3%
Transportation Equipment Manufacturing	38.69	43.05	40.74	32.01	32.17	0.3%	-1.9%
Wholesale Trade	9.24	11.06	10.45	10.48	11.84	0.7%	1.0%
Retail Trade	24.94	26.95	28.11	27.23	30.50	0.7%	0.7%
Transportation, Warehousing, & Utilities	6.31	6.69	7.67	7.78	7.38	1.1%	-0.3%
Information	5.22	5.27	5.80	5.01	4.64	0.6%	-1.9%
Financial Activities	10.61	10.97	10.14	10.21	10.88	-0.3%	0.6%
Finance and Insurance	7.57	7.81	6.91	6.94	7.48	-0.5%	0.7%
Real Estate and Rental and Leasing	3.04	3.17	3.23	3.27	3.41	0.3%	0.4%
Professional & Business Services	17.76	26.23	29.45	29.48	34.49	2.8%	1.3%
Professional, Scientific, and Technical Services	7.37	8.71	8.11	8.15	8.72	0.5%	0.6%
Management of Companies and Enterprises	3.93	2.45	3.30	3.35	3.24	-1.0%	-0.2%
Admin/Support/Waste Mgt/Remediation	6.47	15.06	18.04	17.99	22.54	5.9%	1.9%
Education & Health Services	22.67	30.32	36.34	38.14	44.52	2.7%	1.7%
Health Care and Social Assistance	20.66	26.68	31.08	32.64	38.54	2.3%	1.8%
Leisure & Hospitality	19.54	22.85	24.48	25.22	30.25	1.3%	1.8%
Other Services (except Public Administration)	7.36	9.09	9.74	9.44	10.31	1.6%	0.5%
Government	23.52	27.63	30.57	30.79	32.24	1.5%	0.4%
Total Local Government	14.97	18.37	20.54	20.43	21.98	1.8%	0.6%

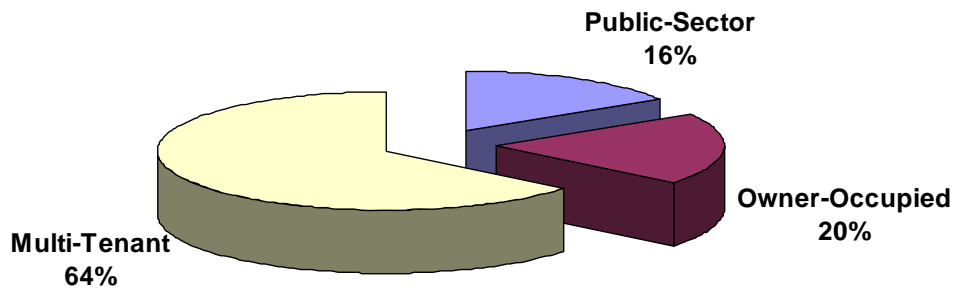
Source: *economy.com*

OVERVIEW OF EXISTING MARKET CONDITIONS

Downtown contains approximately 5 million square feet of public and private office space. Downtown is the office hub of the Wichita Metropolitan Area.

Approximately two-thirds of the Downtown office space is for-rent office in multi-tenant buildings. Owner occupied office space represents 20 percent of the office supply with the remaining office housing public sector employees.

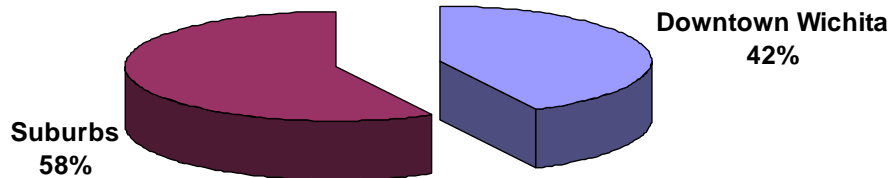
FIGURE II-1
DOWNTOWN OFFICE SPACE BY TYPE



Source: Wichita Downtown Development Corporation; Grubb & Ellis/Martens Commercial Group

Downtown Wichita contains approximately 3.1 million square feet of private, multi-tenant office space. This represents 42 percent of the multi-tenant office supply in the overall Wichita office market.

FIGURE II-2
MULTI-TENANT OFFICE SPACE BY LOCATION



Source: Wichita Downtown Development Corporation; Grubb & Ellis/Martens Commercial Group

In Downtown Wichita, the vacancy rate among multi-tenant office buildings is estimated at 21.4 percent, as compared with 10.8 percent in suburban markets and 15.3 percent in the overall Wichita market.

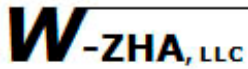


TABLE II-2
OFFICE MARKET SUMMARY
SELECTED WICHITA MARKETS, Yr-end 2008

	<u>Downtown</u>	<u>Suburban</u>	<u>Total</u>
Total	3,133,000	4,251,000	7,384,000
Available	21.4%	10.8%	15.3%
Occupied	2,463,000	3,793,000	6,256,000

Source: Grubb & Ellis/Martens Commercial Group

Despite the relatively high overall Downtown vacancy rate, vacancy among Class-A multi-tenant office buildings is low. Downtown's supply of Class-A office space includes 1.06 million square feet in five buildings.¹ Among these buildings, the vacancy rate currently stands at just 5.6 percent, and these buildings can accommodate only two or three tenants seeking contiguous blocks of 15,000 square feet or more.

Gross lease rates in these Class A buildings generally range from \$14 to \$16 per square foot. Class A buildings in the suburbs command gross rents in excess of \$20 per square foot; the Downtown market has not penetrated this price tier.

¹ Various sources offer definitions of the Class-A market that vary from three to five buildings, and roughly 900,000 to 1.1 million sq. ft.

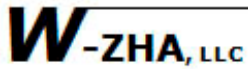


TABLE II-3
COMPARATIVE CLASS-A OFFICE INDICATORS

	<u>Downtown</u> ^{1/}	<u>Suburban</u> ^{2/}
Class-A	1,063,000	n/a
Available	5.6%	11-13.5%
Occupied	1,003,860	n/a
Avg. Class-A Lease Rate ^{3/} (per sq. ft. full-service)	\$14-\$16	\$18-\$25

^{1/} Downtown supply and availability calculated based on compilations of individual building data reported by JP Weigand & Sons, Inc. As adjusted by W-ZHA, LLC, Class-A supply includes space in the Farm Credit Building, Epic Center, Bank of American Building, Riverview, and River Place buildings.

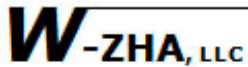
^{2/} While not officially available, Suburban Class-A space amounts to approximately 1.2 million square feet. Vacancy rate range incorporates data furnished for individual submarkets by JP Weigand & Sons, Inc.

^{3/} Lease rate data provided by interviews with commercial real brokers as well as data provided by JP Weigand & Sons, Inc.

Source: JP Weigand & Sons, Inc.; Grubb & Ellis/Martens Commercial Group; W-ZHA field survey.

In contrast to the Class-A multi-tenant office market, vacancies in the Downtown Class B and Class-C multi-tenant office buildings approximate 20 and 50 percent, respectively (JP Weigand & Sons, Inc.). The overall vacancy rate in non-Class-A properties is estimated at 29.5 percent.

The overall Wichita market features a similar pattern; data furnished by JP Weigand & Sons, Inc. shows Class-B and Class-C vacancies in the overall market at 16 percent and 38.4 percent, respectively.



DOWNTOWN AND SUBURBAN MARKET COMPARISONS

The following describes prevailing competitive market trends and factors in Wichita's Downtown and suburban office markets.

Declining Downtown Market Share: As shown in Tables II-4 and II-5 below, in recent decades Downtown's share of the overall Wichita office market has declined. While Sedgwick County employment has grown (see Table II-1), since 1990 demand for new office space has been met primarily by new supply in the suburban office submarkets.

Since 1987, no Class-A office buildings have been added Downtown. Overall, the supply of office space has changed little in the Downtown market since 1990; in fact, since 2000, Downtown Wichita's total occupied office space has declined, at a compounded rate of roughly 1 percent per year.

During this same time frame, occupied suburban office space has increased from roughly 2.9 million square feet to 4.25 million square feet, at a rate of nearly 5 percent per year.

TABLE II-4
COMPARATIVE GROWTH RATES
DOWNTOWN vs. SUBURBAN OFFICE MARKETS (000s of sq. ft.)

<u>Year</u>	<u>CBD Office Space</u>			<u>Suburban Office Space</u>		
	<u>Total</u>	<u>Vacant</u>	<u>Occupied</u>	<u>Total</u>	<u>Vacant</u>	<u>Occupied</u>
2000	3,409	21.2%	2,687	2,892	13.8%	2,494
2001	3,228	23.8%	2,460	3,246	15.9%	2,731
2002	3,576	26.2%	2,638	3,816	18.9%	3,096
2003	3,960	24.8%	2,977	4,060	18.0%	3,329
2004	3,973	24.3%	3,009	4,036	14.4%	3,454
2005	3,815	24.3%	2,889	4,072	15.2%	3,453
2006	3,486	22.5%	2,701	3,804	14.0%	3,273
2007	3,247	25.6%	2,417	3,815	11.7%	3,370
2008	3,133	21.4%	2,463	4,251	10.8%	3,793
Total Increa:	(276)		(224)	1,359		1,299
CAGR*	-1.0%		-1.1%	4.9%		5.4%

* "CAGR" = compounded annual growth rate.

Source: Grubb & Ellis/Martens Commercial Group; W-ZHA LLC.



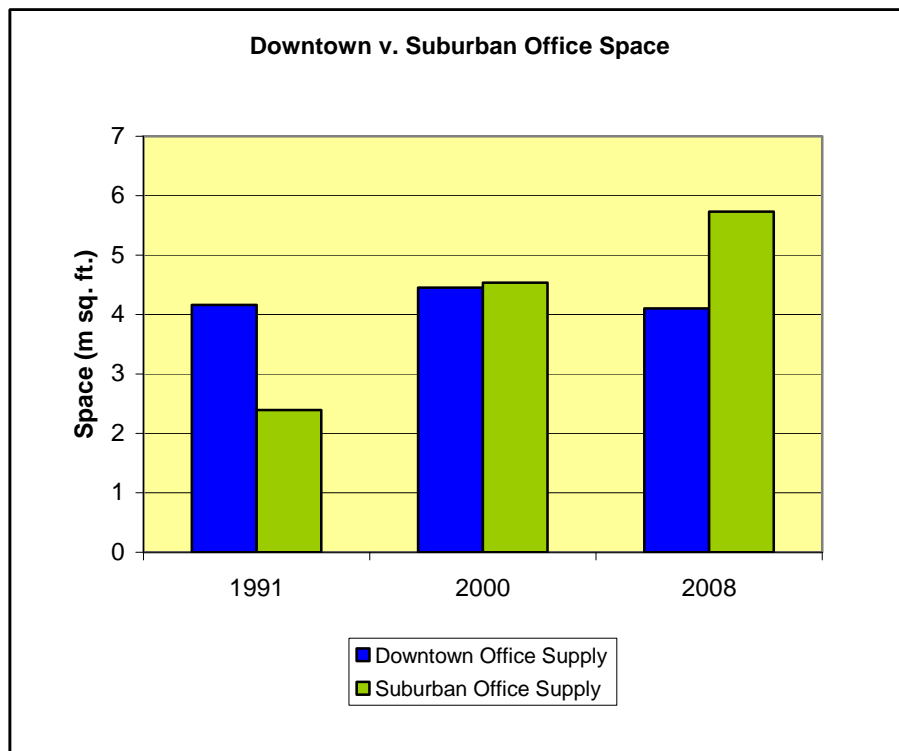
As a result of these trends, Downtown's share of the Wichita office market has fallen from 63.5 percent in 1991 to 49.5 percent in 2000, and 41.7 percent in 2008.²

TABLE II-5
DOWNTOWN vs. SUBURBAN MARKET SHARES: 1991-2008

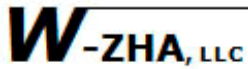
	<u>Downtown</u>	<u>Suburban</u>
1991	63.5%	36.5%
2000	49.5%	50.5%
2008	41.7%	58.3%

Source: JP Weigand & Sons, Inc.

FIGURE II-3



² Data prior to 2000 are not available from Grubb & Ellis/Martens Commercial Group. Table II-5 and Figure II-1 are based on data provided by JP Weigand & Sons, Inc.



Among suburban locations, the Northeast district has captured the dominant share of new office development. The Southeast sector also reports relatively low vacancy rates, but outside the Northeast submarket, since 2000 only two suburban office buildings (excluding owner occupied and medical buildings) with more than 25,000 square feet have been built.

Gross lease rates for Class-A space in the Northeast submarket range from roughly \$20 to \$26 per square foot. In comparison, as noted earlier, lease rates for most Downtown Class-A space ranges from roughly \$14 to \$16 per square foot.

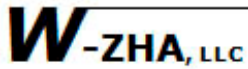
Competitive Market Factors: In seeking to increase Downtown office tenancies, the following factors play key roles:

Parking: Downtown's five Class-A buildings maintain high occupancies. Of these five buildings, four are located outside the core of Downtown. Most of the Downtown Class-A multi-tenant office buildings offer suburban-style arrangements featuring dedicated, ample and free parking in both surface lots and attached parking structures. The remaining Class-A building is the Bank of America building at Broadway and Douglas Avenue, which also offers parking. Where access to parking is constrained, in most cases Downtown buildings have sustained high vacancy rates.

Space Availability: The unavailability of high-quality office space has contributed to several recent corporate relocations from Downtown to suburban Wichita. As noted earlier, at this time the existing Downtown office market would be able to accommodate no more than two to three tenants seeking relatively large amount (e.g. 15,000 square feet) of contiguous space. Thus, as existing Downtown tenants grow and require more space, the Downtown may not be able to accommodate their demand; suburban locations may provide the only option.

Quality of Supply: The Epic Center, Farm Credit Building, Riverview Plaza and River Park Place were all constructed in the 1980s; the Bank of America Center opened in 1974 but has undergone substantial renovations. While the newest among the supply of office buildings in the Downtown, these buildings are twenty years old. Newly constructed office buildings are better tailored for today's business operations. The lack of new, quality office space has made it difficult to discern whether the Downtown's rental rate of \$14 to \$16 per square foot is a function of lack of demand or a function of relatively weak supply.

Price: At this time, Downtown Class-A space is highly competitive on price; its \$14 to \$16 lease rates are considerably lower than suburban Class-A rates, which frequently exceed \$20. For many Class-A tenants, however, the



Downtown's price advantage is offset by the lack of quality space Downtown and, in turn, the sense that Downtown is not the premiere office location in the metro area. New construction requires rents in excess of \$20 per square foot.

Urban Environment: While Downtown Wichita has sustained a long-term decline, recent successes such as the revitalization of Old Town, the expansion of Airbus in the Downtown, the 50,000 square foot High Touch lease, new residential developments, and the opening of the INTRUST Bank Arena have restored a sense of vitality. The Downtown has the potential to bolster its competitive position as the region's urban center to the extent that it can offer an attractive, mixed-use walkable environment. Downtown must enhance its retail, restaurant, cultural, entertainment and other leisure-oriented amenities to become a more competitive office location. Forging attractive, walkable, mixed-use environments will differentiate the Downtown in the marketplace.

Labor Proximity: Wichita's upscale suburban neighborhoods are located primarily in its eastern and (increasingly) western suburban areas. Office development has followed the labor market to the suburbs. However, as the labor market has spread across the metro market to both the east and the west, Downtown's central location is a major market advantage.

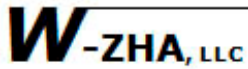
DOWNTOWN OFFICE MARKET OUTLOOK AND PROJECTION

In projecting a likely range of new office development,³ this analysis generates two "market-based" forecasts, including (1) a conservative scenario, based primarily on prevailing trends, (2) a slightly more aggressive scenario, which envisions the potential that can be reasonably anticipated if conditions evolve as prescribed in this Downtown Master Plan. Market-based forecasts apply the following methodology:

Employment growth: Office tenancies are driven by employment. In many markets, the appropriate employment indicator focuses on the region's "office-inclined" industrial sectors, which include categories such as financial activities, professional services, management and a few others.

In this analysis, however, overall non-farm employment provides the appropriate indicator. There are two reasons for this. First, Wichita's tenants include a relatively high representation of corporate businesses that do not fall within "office-inclined" categories. For instance, in recent years, major leasing transactions have

³ Projections are for *net new* multi-tenant office space. Thus, where existing buildings are demolished or converted to other uses, new development activity will exceed the projections for net new space.



involved companies such as Cessna Finance, Airbus, Cargill, Westar Energy and High Touch.

The second reason for focusing on overall non-farm employment is simply that in Wichita this has historically been a more accurate indicator. As shown in Table II-6 and Figure II-2 below, from 1990 to 2008, office-inclined employment grew very slowly, at a compounded rate of 0.1 percent per year. In comparison, overall employment increased at a compounded rate of 1.2 percent per year. During this same time span, office supply increased at the considerably higher rate of 2.3 percent per year. This office growth rate considerably exceeded even the overall employment as well as office-inclined employment growth, but between the two indicators, overall employment has historically served as the more accurate tracker of office development activity.

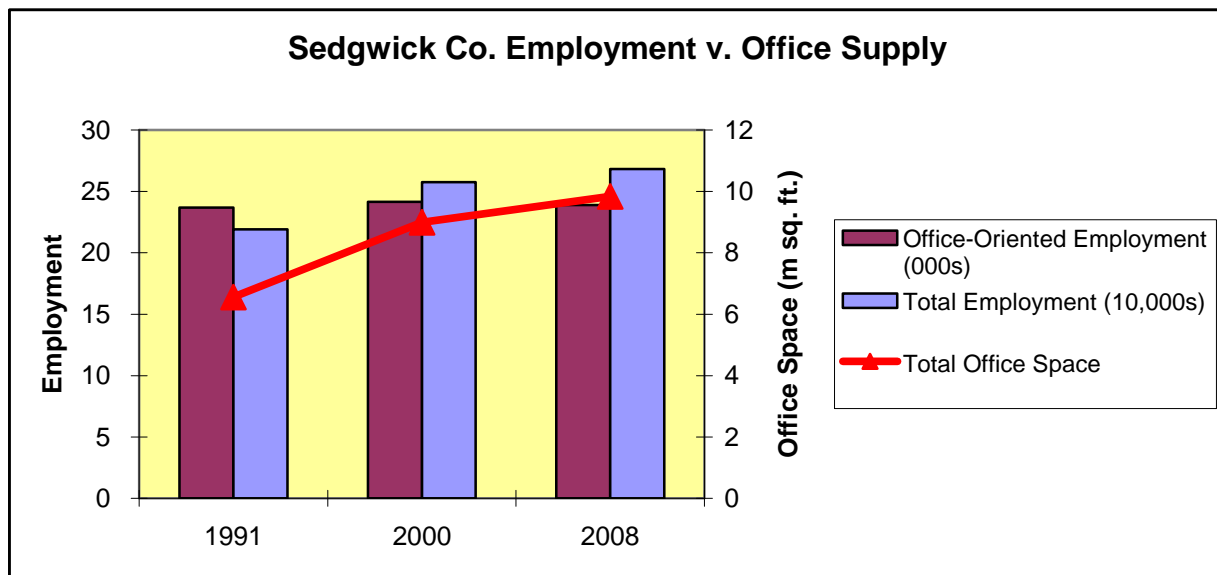
TABLE II-6

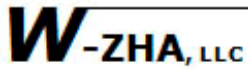
**SEDGWICK COUNTY EMPLOYMENT BY SELECTED INDUSTRY SECTORS
TRENDS AND PROJECTIONS: 1990-2020**

	1990	2000	2008	2009	2010	2020	CAGR	
							90-'08	09-'20
Office-Inclined Sectors	23.67	24.14	23.89	23.94	24.02	25.53	0.1%	0.6%
Financial Activities	10.61	10.97	10.14	10.20	10.21	10.88	-0.3%	0.6%
Professional, Scientific, and Technical Services	7.37	8.71	8.11	8.10	8.15	8.72	0.5%	0.7%
Management of Companies and Enterprises	3.93	2.45	3.30	3.32	3.35	3.24	-1.0%	-0.2%
Religious, Grantmaking, Civic, & Prof. Org.	1.76	2.00	2.34	2.32	2.31	2.69	1.6%	1.4%
Total Non-Farm Employment	217.09	257.50	268.17	262.04	257.82	283.87	1.2%	0.7%
Office Space (000s sq. ft.)	6,552	8,989	9,834	--	--	--	2.3%	--

Source: economy.com; W-ZHA, LLC; JP Weigand & Sons, Inc.

FIGURE II-4





Based on the foregoing, office market growth is projected using compounded annual growth factors of .73 percent to 1.18 percent. The lower figure is the employment growth rate forecasted by Moody's *economy.com*, a nationally recognized economic consulting firm; the higher figure is the past growth rate achieved from 1990 to 2008. This higher figure is selected as a "reasonable" figure based on past performance in Sedgwick County (see Table II-1 above), and also takes into consideration the historical, macro-economic perspective that since 1960, national non-farm employment has grown at a compounded rate of 1.95 percent.

Occupied Office Space Growth and Downtown Share: Applying these growth rates to Wichita's current supply of occupied multi-tenant office space, the resulting increase over ten years would range from 472,000 to 779,000 square feet of multi-tenant space, as shown in Table II-7 below. Under the conservative scenario, the assumption is that Downtown would maintain its current share (42 percent) of the overall Wichita market's office supply. Under the more aggressive scenario, the assumption is that Downtown would capture 47 percent of new growth and begin to recapture a fairly small portion of its recently-lost market share. Applying these calculations, Downtown would support roughly 198,000 to 366,000 square feet of new space.

Approximately 25 percent of Downtown office space is owner-occupied space. Applying this ratio to the multi-tenant office potential results in a market for between 247,800 and 457,500 square feet of office space Downtown.

A portion of this market demand will be captured in existing space. Today, there is excess vacancy in the Class B office supply Downtown. Assuming a stabilized occupancy of 85 percent among Class B buildings, approximately 75,000 square feet of new demand will be captured in existing buildings. The net demand for new office space is, thus, 172,800 to 382,500 square feet.

New Development: The 172,800 to 382,500 square foot range represents just the occupied portion of new office development. Assuming a stabilized vacancy rate of 93 percent, actual development would range from 186,000 to 411,000 net square feet. From a development perspective, this translates into approximately 220,000 to 480,000 gross square feet of office space.

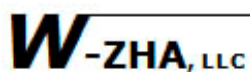


TABLE II-7
Office Market Potential
Downtown Wichita
2010-2020

	Prevailing Trends	Conditional Potential
Occupied Multi-Tenant Office Space	6,256,000	6,256,000
Avg Annual Growth Rate	0.73%	1.18%
10-Year Projected Office Space Growth	472,000	778,700
Downtown Share	42%	47%
Multi-Tenant Office Potential	198,200	366,000
Plus: Owner Occupied @ 25%	49,600	91,500
Total Occupied Office Potential	247,800	457,500
Less: Excess Class A Vacancy	0	0
Less: Excess Class B Vacancy ^{/1}	75,000	75,000
Net Occupied Office Potential	172,800	382,500
Stabilized Occupancy Adjustment	93%	186,000
Net to Gross Square Feet Adjustment	85%	219,000
Net New Office Building Potential	219,000	484,000

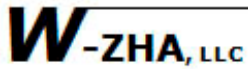
1. Prevailing Trends growth rate based on *economy.com* employment forecast. Conditional Potential growth rate is based on two factors: (1) 30-year forecasted employment demand (if unconstrained by labor supply) of 1.5% per year set forth by Wichita Metropolitan Area Planning Department (2004), given forecasted labor supply, actual employment growth is forecasted at 0.5% per year; (2) previous long term (1990-2008) employment growth rate of 1.18 percent per year. Given these data, employment growth may exceed current *economy.com* forecasts.

2. Assumes Class B stabilized occupancy at 85 percent.

Source: W-ZHA, LLC.

Thus, over ten years, if prevailing trends continue, Downtown Wichita is likely to support the development of more than 200,000 square feet of new office space. On the other hand, if overall economic growth exceeds current expectations, and if improvements to Downtown enhance its market position, supportable new office space could approach 480,000 square feet.

This general volume of development is contingent on a wide range of project-specific considerations, including the availability of quality sites, trends in lease rates, parking availability, proximity to amenities, and others. Overall, over the



next ten years, Downtown Wichita offers the potential to support roughly 220,000 to 480,000 square feet of net new office development.

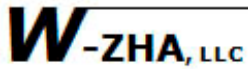
DOWNTOWN OFFICE PRODUCT CONCLUSIONS

To capture this potential will require that office buildings be properly sited and scaled to the target market. The following paragraphs summarize market conclusions with regard to product.

1. Modest Scale – New office buildings will likely range from 40,000 to 80,000 square feet. It will be difficult to achieve the pre-leasing thresholds required by lenders for buildings much larger in scale. Buildings 5-stories or less can be “stick-built” which is less expensive than mid- and high-rise construction. With lower cost comes lower rent.
2. CoolSpace – CoolSpace is office space located in older buildings that are architecturally distinct and within walking distance to restaurants. A share of the office market will locate in these types of buildings. Developers can often take advantage of historic tax credits as a tool to reduce the cost of rehabilitating older buildings to office space.

In an effort to keep rents low, some newly constructed office space may be wise to adopt the hard loft concept where large, flexible, high-ceilinged, well lit space can be marketed with the option of minimal tenant finish.

3. Price Point – New office development will require a rent level of at least \$25 per square foot. Rents must be this high to offset construction costs and operating expenses.
4. Parking – Office buildings will require parking within easy walking distance to the building. In the near term, the rental market will not bear the cost of structured parking. Public/private financing will be necessary to support the development of structured parking to service Downtown land uses. Parking should be sited in locations where there is the greatest potential for 24-hour use. Office users (and lenders) will demand that parking be available for employees.
5. In or Immediately Adjacent To Mixed-Use Districts – To command the rents required to construct a new office building, Downtown must offer a distinctly “urban” office product. As such, office buildings should not be developed in the middle of a surface parking lot away from the street. Office buildings must be developed in (or adjacent to) those Downtown districts that offer restaurants, entertainment, services and housing within easy walking distance.



HOTEL MARKET

WICHITA LODGING MARKET

Despite the national economic downturn, the Wichita lodging market has outperformed the national lodging market. Three points summarize the recent performance of the Wichita market.

Outperformance: As shown below, from 2004 through 2008, occupancy rates in Wichita ranged from 62 to nearly 67 percent before falling to 59 percent in 2009 (through November). Since 2006 Wichita occupancies have consistently exceeded national market occupancies.

**TABLE III-1
LODGING MARKET OCCUPANCY RATES
U.S. v. WICHITA, 2003-2009**

Year	Wichita	U.S.*
2003	58.9	59.2
2004	62.0	61.4
2005	63.0	63.1
2006	66.4	63.3
2007	65.2	63.1
2008	65.0	60.3
2009 ¹	59.2	55.2

* PricewaterhouseCoopers

² 2009 figures are through Nov. for Wichita market
forecasted as of Nov. 9, 2009 for U.S. market

Growing Market: It should be noted that the Wichita market has been able to maintain relatively high occupancies even as it has accommodated new growth. As shown below, over the last six years room revenues have grown at an annualized rate of 5.4 percent per year; this growth incorporates increases in room supply (2.1 percent per year) and revenue per available room (RevPAR), which has increased by 3.3 percent per year.

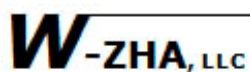


TABLE III-2
WICHITA LODGING MARKET INDICATORS

	Occupancy (%)	ADR (\$)	RevPAR (\$)	Rm Supply	Rm. Demand	Rm Revenue
2003	59.9	60.65	36.32	2,497,545	1,495,904	90,719,815
2004	63.4	62.56	39.66	2,499,483	1,584,557	99,123,800
2005	64.4	63.11	40.62	2,505,746	1,612,693	101,776,523
2006	67.6	68.09	46.03	2,556,041	1,727,947	117,655,574
2007	66.6	72.67	48.43	2,678,003	1,784,616	129,687,009
2008	66.7	76.26	50.85	2,723,341	1,815,984	138,479,472
2009	59.2	74.37	44.06	2,823,693	1,673,033	124,419,226
CAGR (Compounded annual growth rate)	- -	3.5%	3.3%	2.1%	1.9%	5.4%

* All figures year-to-date through November of each year.

Source: Smith Travel Reports; W-ZHA, LLC.

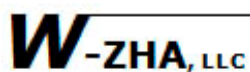
Locations: Suburban Wichita contains 84 percent of the regional room supply. Eastern suburban Wichita has captured most of the recent growth; this submarket absorbed four new properties in 2009 (Best Western, Hampton Inn & Suites, Springhill Suites, Staybridge Suites). Suburban properties are, for the most part, limited-service properties; the Marriott and the Airport Hilton are the only full-service properties in suburban Wichita.

DOWNTOWN LODGING MARKET OVERVIEW

The Downtown Wichita Study Area contains four properties containing approximately 770 rooms.⁴ These include the Broadview Hotel, Courtyard by Marriott, Hotel at Old Town and Hyatt Regency. Among these, the Broadview and Hyatt Regency are full-service properties; a limited range of services are available at the Courtyard and Hotel at Old Town.

Outperformance: As a group, these properties' performance exceeds that of the overall Wichita market. As shown in Table III-3 below, since the opening of the Courtyard in 2007, this set of properties has consistently achieved higher occupancies than the overall Wichita market, despite charging considerably higher average daily rates (ADR). As a result, the RevPAR at these properties has been roughly 50 percent higher than the RevPAR in the overall market.

⁴ There are actually six properties within the 67202 Downtown zip code; this analysis excludes the Holiday Inn and Cambridge Suites properties located on the south side of US Highway 54.



These figures are consistent with the general finding that even limited-service properties in Downtown Wichita achieve daily room rates of roughly \$125. This rate is well above suburban rates, and even higher than the average for Downtown properties. This is also consistent with anecdotal evidence from interviews with hotel managers/owners that many business travelers choose to stay in properties located Downtown – particularly in Old Town – even when traveling for business in suburban locations. The performance of Downtown hotels offers strong evidence that, given good locations and the economic growth projected, Downtown Wichita will support additional lodging supply.

TABLE III-3

WICHITA LODGING MARKET COMPARISONS

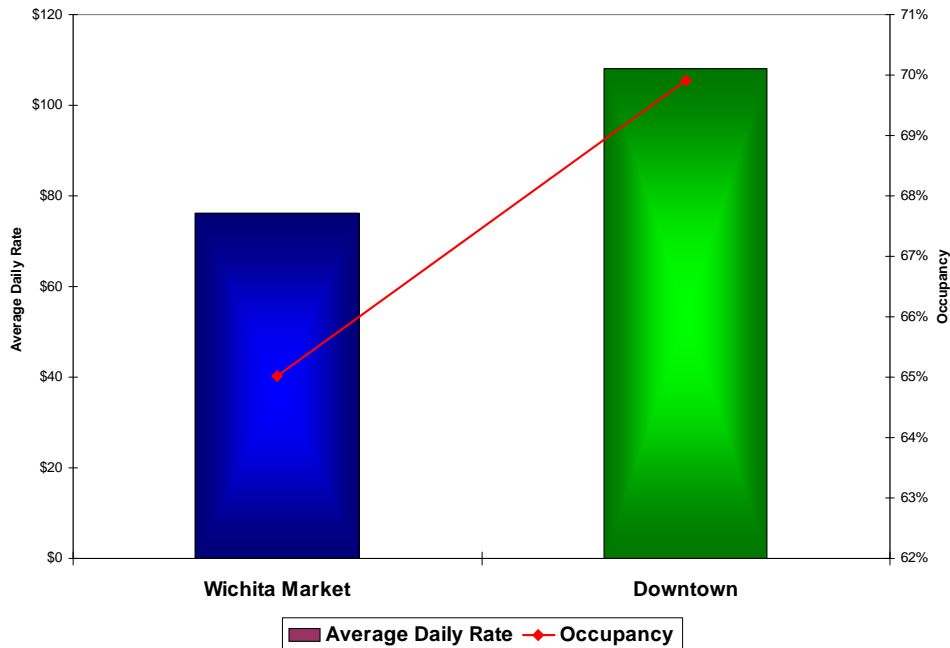
	Occupancy (%)		ADR (\$)		RevPAR (\$)	
	Downtown ^{1/}	Overall Mkt	Downtown 1/	Overall Mkt	Downtown 1/	Overall Mkt
2007	71.3	66.6	101.33	72.67	72.22	48.43
2008	71.4	66.7	108.73	76.26	77.63	50.85
2009	68.7	59.2	97.51	74.37	67.01	44.06

* All figures year-to-date through November of each year.

^{1/} "Downtown" set includes the Hyatt Regency, Broadview, Marriott Courtyard and the Hotel at Old Town.

Source: *Smith Travel Reports; W-ZHA, LLC.*

FIGURE III-1
DOWNTOWN HOTEL PERFORMANCE COMPARED TO OVERALL MARKET



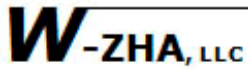
Source: Smith Travel Reports; W-ZHA, LLC

Segments: Like the overall market, Downtown hotels derive most of their demand from the “business transient” and convention/meeting segments. A recent study shows that the business transient and convention/meeting market account for roughly 80 percent of lodging demand in Wichita.⁵ While some Downtown properties derive higher portions of their business from the Century II events, these figures, along with informal anecdotes, support the general allocation wherein meetings and conventions account for roughly 40 percent of the Downtown lodging market, with 40 percent attributable to business transient travelers, and the remaining 20 percent attributable to general leisure guests.

DOWNTOWN LODGING MARKET OUTLOOK AND PROJECTION

The following describes the general market outlook for the Downtown Wichita lodging market, along with a projection for supportable development over the next ten years.

⁵ The study, prepared by Go Wichita! attributes 42% of room-demand to business transient travelers, 31% to “convention/meeting” segments, and 11% to other “group” categories such as sports (4.5%), weddings/reunions (4.7%) and “group tour” (1.9%). The remaining “leisure transient” segments comprise less than 20 percent of the overall market.



Strong Potential for New Lodging Downtown

As the local, regional and national economies recover, Downtown Wichita offers strong potential for new lodging development. Four considerations shape this outlook:

- Office ratios: Notwithstanding Downtown's 42 percent share of the Wichita office market, Downtown hotel rooms account for just 16 percent of its lodging market supply.

**TABLE III-4
OFFICE/HOTEL RATIOS
DOWNTOWN vs. OVERALL WICHITA MARKETS**

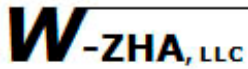
	Total <u>Wichita</u>	Downtown <u>#</u>	<u>%</u>
<u>Office Space</u>			
Wiegand	9,833,550	4,100,590	41.7%
Grubb/Ellis/Martens	7,384,000	3,133,000	42.4%
<u>Lodging Rooms</u>	6,351	1,016	16.0%

*Source: Go Wichita; Grubb & Ellis/Martens Commercial Group,
J.P. Weigand & Sons, Inc.*

This indicates that the Downtown market is underserved. Before even considering the influences of the Century II convention center and the new INTRUST Bank Arena, Downtown's share of the Wichita office market indicates that its lodging market should support more rooms.

Moreover, while Downtown Wichita may not capture 42 percent (its share of the regional office market) of the regional room supply, as office demand growth resumes in Downtown Wichita this will generate increased lodging demand.

- Convention Business: Downtown Wichita maintains the dominant position in the Wichita convention and meetings market.
- Downtown Amenities: Access between Downtown and suburban Wichita is not difficult, and Downtown's features and amenities increasingly provide compelling reasons for travelers to stay Downtown. Over the last several years, Old Town has provided the primary amenity for Downtown travelers; other amenities include the City's museums and the new INTRUST Bank



Arena. The importance of Downtown amenities is made clear in the previously mentioned finding that Downtown hotels attract business travelers travelling for business meetings in suburban locations.

- Underserved Niches: Downtown Wichita contains a limited supply of properties in limited-service, middle-market and budget categories. While this is not unusual for Downtown districts, in most Downtown districts this is attributable to relatively high land costs and predominantly high-end office markets. This is not the case in Wichita, where the Class-A office market achieves lower rents than its suburban competition, and where land costs are generally estimated at \$30 to \$50 per square foot of land. While Downtown's full-service niche may be adequately served at this time, strong performances at the Hotel at Old Town and Courtyard by Marriott properties indicates the strength of Downtown's limited service hotel market.

Projected Development Potential

Based on the foregoing, it is clear that – given suitable locations close to Downtown amenities -- Downtown Wichita will be able to support additional lodging facilities.

Over the next ten years, Downtown Wichita is likely to support two to four facilities, containing a supply of 250 to 400 rooms.

The derivation of this projection rests upon the following four considerations:

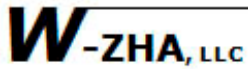
Undersupplied Convention Business: A brief investigation of other selected comparable and competitive cities shows that, relative to its convention and meeting activity, Wichita is substantially undersupplied with lodging rooms. As shown below, among a selected sample of comparable cities, Wichita's ratio of space to Downtown lodging rooms is nearly 100 percent higher than that in Des Moines, the next-highest city, and is nearly 150 percent higher than the average among these cities.

TABLE III-5

Exhibit Space and Downtown Lodging in Wichita and Selected Cities

	OK City	Tulsa	Omaha	Des Moines	Average	Wichita
Downtown Conv. Ctr. Exhibit Space	100,000	167,200	194,000	198,000	164,800	195,500
Downtown Lodging Rooms	1,967	1,559	2,158	1,561	1,811	779
Ratio (exhibit space/rm)	51	107	90	127	94	251

Source: Go Wichita!; W-ZHA, LLC



This leads to the general finding that accommodations may present difficulties for groups seeking to book Century II for large meetings. Discussions with Go Wichita! support this general finding; Go Wichita! believes that additional Downtown rooms are important in attracting and retaining Downtown convention/meeting activity, and that, given reasonable proximity to the convention center, additional rooms would be supportable in Downtown Wichita. Over ten years, as shown below in Table III-6, growth in convention/meeting activity could likely support a 25 to 40 percent increase in Downtown rooms.

Business Market Growth: Given office growth as projected in Section II, over the next ten years the general business transient segment of the lodging market should grow by 6.9 to 13.5 percent. Based on the assumption that this segment accounts for roughly 40 percent of Downtown lodging occupancy, this would increase demand for Downtown lodging by 21 to 42 rooms (Table III-6).

Increased Downtown Amenities: An economic study prepared in anticipation of the development of the new INTRUST Bank Arena indicated that it would likely draw an increase of 220,000 out-of-town visitors to Downtown Wichita. If only 10 percent of these visitors were to stay in Downtown accommodations, this would amount to 22,000 room-nights. At an assumed occupancy rate of 67 percent, this would support 90 rooms. Given this impetus, along with other improvements to Downtown Wichita, the Downtown leisure/transient segment could potentially reasonably increase by 50 to 75 percent, adding 78 to 124 rooms to the Downtown lodging market.

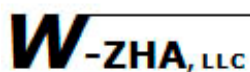


TABLE III-6
LODGING INDUSTRY 10-Year GROWTH POTENTIAL
DOWNTOWN WICHITA STUDY AREA

	Segment Share	Current Rm Supply	Growth Potential (rooms)	
			Low	High
General Business Component ¹	40%	311	6.9% 21	13.5% 42
Meeting Component	40%	311	25% 78	40% 124
Leisure/Other (Arena)	20%	155	50% 78	75% 117
Net Total Room Increase	100%	777	177	283
Adjustments: replace rm reduction at Broadview			30	30
Adjusted Net Total Room Increase			207	313

¹ Table ___ in Section ___ shows the potential for 215,000 to 423,000 square feet of new office development, representing increases of 6.9% to 13.5% over existing inventory.

Source: W-ZHA, LLC

Competitive Development Dynamics: The figures shown in the preceding table indicate that over ten years, Downtown Wichita could potentially support an additional 200 to 300 rooms. This figure is likely to be conservative, for it excludes considerations of competitive market dynamics. Developers and lodging companies do not develop properties simply to capture opportunities within a given market's capacity. Rather, they pursue development strategies that will enable them to capture increased market shares. This competition shapes strategies involving site selection, product niches (as where, for example, Marriott may introduce its Courtyard, Residence Inn, Fairfield Inn, Springhill, TownePlace Suites, Renaissance or other products to complement existing properties in a market) and other issues. Where new construction exceeds the market's capacity, existing properties (either Downtown and/or suburban) may fail, but this does not deter such construction. Thus, where Downtown achieves growth and enhances its profile, its potential for additional lodging facilities will exceed the figures derived in the preceding table.



Overall, while Table III-6 indicates a potential for 200 to 300 more rooms in Downtown Wichita, a reasonable projection must consider development dynamics that will increase this potential to a range of 250 to 400 rooms – in two to four properties -- over the next ten years.